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DEPT ALSO FOR EEB/IFD/OMA (ANDREW SNOW AND RICHARD FIGUERA),
AF/EPS (ANN BREITER AND ALLIOT REPKO), AF/S (AARON HALL)

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SUBJECT: LESOTHO: 2008 FISCAL TRANSPARENCY REPORT

REF: STATE 16737

In response to REFTEL, Embassy Maseru submits the following information regarding fiscal transparency in Lesotho.

¶1. SUMMARY: The Government of Lesotho is committed to fiscal transparency and accountability and works closely with the IMF and the World Bank on the issue. Lesotho currently lacks the capacity with regards to internal financial controls necessary for top tier financial reporting, especially in the area of publishing the nation's public accounts audits annually. However, the Government of Lesotho has launched recent initiatives to reform public financial management programs. The GOL introduced new procurement regulations in 2008 which require increased transparency, including advertising of tenders on the Internet. The existing financial information system, GOLFIS, is to be replaced by a more integrated system, referred to as IFMIS, later this year. In addition, Lesotho participates in the IMF/World Bank General Data Dissemination System (GDDS) to improve the quality, coverage, timeliness, and dissemination of Central Government fiscal information. END SUMMARY.

¶2. Within the Government of Lesotho, fiscal management responsibilities are allocated through a division of authority between the executive, legislative, and judicial branches. Within the executive branch, government fiscal management is regulated by Finance Orders Act of 1988 and Financial Regulations Act of 1973. These laws divide financial and accounting responsibilities between the Ministry of Finance, the government's central financial agent, and other governmental agents requesting such services.

¶3. GOL budget documents are publicly available on the government's website. These budget documents provide an adequate overview of the fiscal operations of the central government. Such budget documents provide an annual estimate of revenues, expenditures, and financing requirements as mandated by the Finance Orders Act of 1988. GOL budget documents cover three years: the relevant fiscal year, the previous fiscal year, and one year of future budget projections. Though the budget as published does not project allocations for additional future years, such projections are included in Lesotho's Medium Term Expenditure Framework (MTEF).

¶4. While the budget is comprehensive in its coverage of expenditures and revenue, reporting on certain expenditures (such as contingency and extra budgetary funds) is not complete. Contingency liabilities are not reported in the budget as this is not a requirement under the 1988 Finance Orders Act. However, the law requires that the Auditor General (AG) prepare and transmit annual accounts statements, including a report of receipts, payments, and contingency liabilities. The AG audit report is presented by the Minister of Finance to the National Assembly. The latest available Audit Report on Public Accounts is for the Fiscal Year 2002/2003.

¶5. The budget and accounts classifications are generally consistent with "GFS 1986 Manual" economic and functional classifications. The GOL is working to improve the coverage and timeliness of fiscal reports. The Ministry of Finance and Development Planning has begun a public finance management reform program with the support of DFID, the World Bank, and Irish Aid. In October 2008, the GOL will introduce an integrated financial management system, or IFMIS, to improve fiscal data reporting monitoring and control.

¶6. The Ministry of Finance also recently introduced a new government procurement system to improve transparency and decentralize procurement functions from the Ministry of Finance to the various line Ministries. Technical capacity for Government staff is being built in this area through the Chartered Institute of Purchasing and Supply (CIPS), a UK-based NGO, with financial support from DFID and World Bank. In addition, Lesotho subscribes to the IMF/World Bank General Data Dissemination System (GDDS) project to improve the quality, coverage, timeliness, and dissemination of Central Government fiscal information. Lesotho's GDDS data is posted on the IMF external website.

¶7. Lesotho has no bilateral USAID mission and there are no current U.S. government programs that promote accurate disclosure of revenues and expenditures in the national budget. However, in the coming months, a long-term U.S. Treasury Department will arrive to work with the Lesotho revenue Authority on a broad range of fiscal issues.

NOLAN